

QR NOTES 2026-27

Chapter 4B

Tax Deducted at Source (TDS)

Chapter XIX Part B ITA 2025 (Secs 390–402) | IT Rules 2026 | Finance Act 2026 | Tax Year 2026-27
Sec 392 [Salary] | Sec 393 Tables 1/2/3 | Secs 394–402 [Compliance] | [Secs 192–206CCA ITA 1961]

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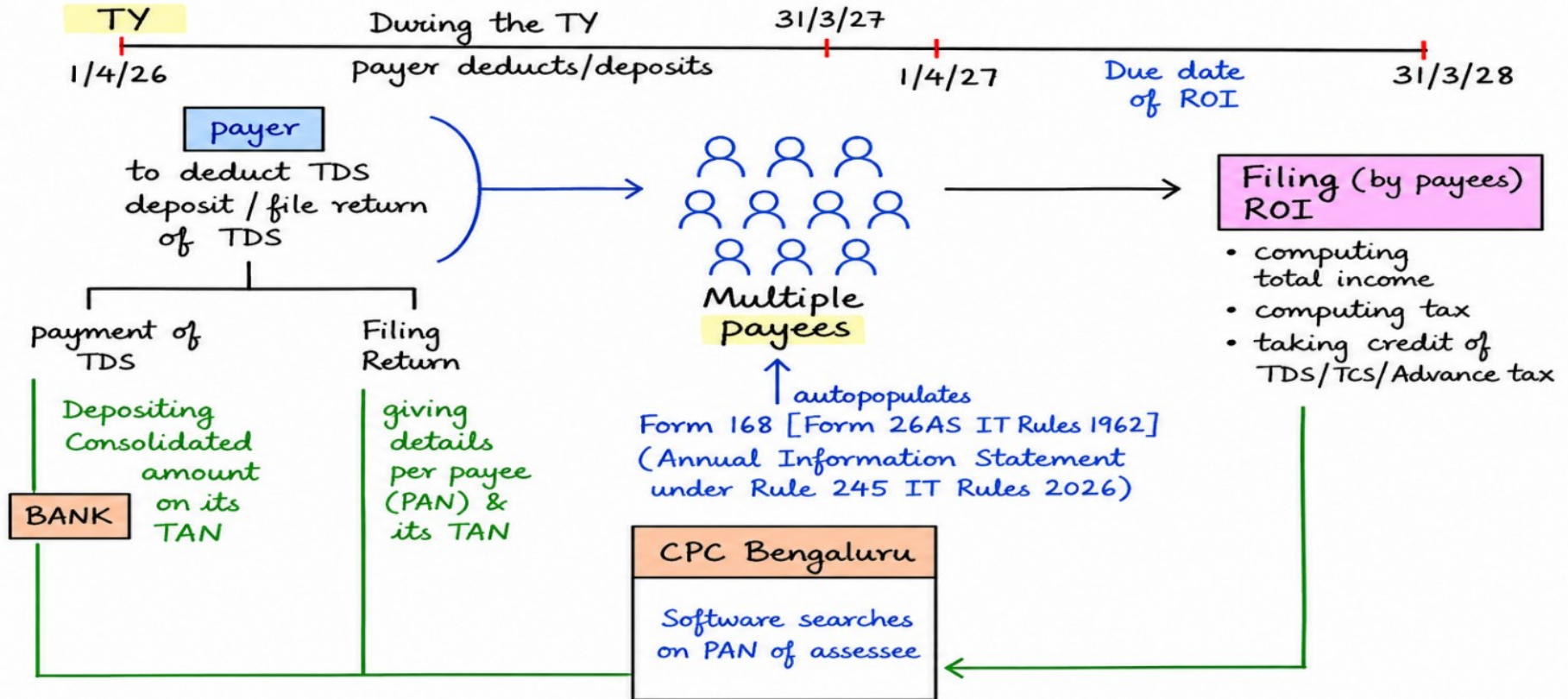
ITA 2025 KEY CHANGE: All TDS provisions (Secs 192–206CCA) consolidated into TABLE-BASED STRUCTURE under Sec 393: Table 1 = Residents | Table 2 = Non-residents | Table 3 = All persons | 'Assessment Year' replaced by 'Tax Year' throughout

Otr ending	Quarterly deposit of TDS [Rule 218(4) IT Rules 2026 (Rule 30(3) IT Rules 1962)] - special quarterly option for TDS u/s Sec 392 [Sec 192 ITA 1961]	Returns of TDS [Rule 219 IT Rules 2026 (Rule 31A IT Rules 1962)]	Issue of TDS certificate [Rule 215 IT Rules 2026 (Rule 31 IT Rules 1962)]
1. 30 th June	7/7	31/7	15/8
2. 30 th Sept	7/10	31/10	15/11
3. 31 st Dec	7/1	31/1	15/2
4. 31 st March	30/4	31/5	15/6

Foundation: Secs 390–391 + 8 Golden Rules of TDS

Sec	Key Provision	Critical Rule / Note
Sec 390(1)	Three modes: (a) TDS/TCS; (b) Advance Tax; (c) Employer's direct payment on NMP [Sec 392(2)(a)]	Co-exist — NOT alternatives TDS applies EVEN if assessment is in a later tax year [Sec 390(2)]
Sec 390(5)	TDS/TCS treated as TAX PAID ON BEHALF OF DEDUCTEE — not the deductor. Deductee claims credit; deductor CANNOT claim credit	TDS is a COLLECTION mechanism — does NOT create a separate charge [Sec 390(3)]. Charge is under Sec 4(1)
8 Golden Rules of TDS Sec 391(1)	Deemed payment by assessee if: (a) no TDS provision; OR (b) deductor failed to	Deemed default [Sec 391(3)]: deductor fails AND assessee also fails to pay directly → BOTH liable. L ESOP start-up: deferred tax per Sec
1	TDS is on PAYMENT AMOUNT — not on income. CA fees of ₹10L → TDS on ₹10L even though CA will deduct expenses later	
2	TDS only on SPECIFIED PAYMENTS in Chapter XIX — NOT on all payments	
3	Payer must: deduct TDS deposit by due date file TDS return obtain TAN issue TDS certificate L&T Ltd v ITO [2005 HC]: TDS may be deposited from any office of the assessee	
4	Exempt incomes NOT subject to TDS Payments to Govt/RBI/Exempt corporations/Mutual Funds → NO TDS [Sec 393(4)]	
5	When to deduct: at time of CREDIT or PAYMENT — whichever EARLIER (except salary: only at payment) TDS on salary: ONLY at payment	
6	Deposit due date: Non-govt: 7th of next month (30th April for March deductions) Govt deductor: same day (book) or 7th (challan)	
7	Rates: as per section — NOT the assessee's income-tax rate NO surcharge/cess on resident payments EXCEPT salary [Sec 392] NR payments: include surcharge + cess	
8	CBDT Circular 23/2017: GST component NOT included in TDS base — TDS on base amount only (before adding GST)	

TDS Rules — Payer Threshold, Payee Types & Rates Framework



TDS on Salary [Sec 392] — Average Rate, Old/New Regime, Forms

Feature	Rule
Method [Sec 392(1)]	Deduct at AVERAGE RATE on ESTIMATED annual salary income for TY Monthly TDS = annual tax / remaining months At time of payment only (not credit)
Cess + Surcharge	ALWAYS added to salary TDS — whether employee is R or NR [exception to general rule]
Tax Regime [Sec 202]	Default = New Tax Regime (Sec 202 = Sec 115BAC) Employee can opt for old regime by intimating employer in Form 122 [Rule 204] — NOT exercising the formal option under Sec 202(6)
Other Income [Sec 392(4)(a)]	At employee's option, employer may take into account: (i) other employer salary; (ii) HP loss; (iii) other positive income; (iv) TDS by other deductors Furnish in Form 122 Cannot include Chapter VIII deductions — those are in Form 124 only
Non-Monetary Perks [Sec 392(2)(a)]	Employer may pay tax on NMP out of own pocket — tax = Avg rate × value of NMP Employee gets credit Tax paid by employer NOT a deductible expense [Sec 35(a)(ii)] NOT grossed up in employee's hands [Sch.III Sl.10]
EPF Withdrawal [Sec 392(7)]	TDS @ 10% if EPF withdrawal ≥ ₹50,000 AND taxable (para 8 exemption not applicable — e.g. < 5 years service) No PAN → 20% + S + C
Multiple Employers [Sec 392(4)(a)(i)]	Employee can choose ONE employer to deduct TDS on aggregate salary If not, each employer deducts on own salary — employee bears risk of shortfall

Forms — Salary TDS:

Form	Purpose	Rule	Old Equivalent
Form 122	Employee declaration of regime choice + other income to employer	Rule 204(1)	Forms 12BB/12C
Form 123	Employer's perquisite valuation statement [if salary > ₹1.5L]	Rule 204(2)	Form 12BA

ITC Ltd v. CIT [2016] 384 ITR 14 (SC): Tips paid voluntarily by customers and distributed to hotel employees = NOT salary u/s 392 — employer is not paying, tips are NOT from employer

Interest

Securities u/s Sec 393(1) SL. 5(i)
[Sec 193 ITA 1961] @ 10%
if > 10000 p.a.

No TDS on the following

- 1) Central / State Govt securities - Exception on Interest > ₹10000 p.a. on
[Sec 393(1) SL. 5(i)(a)(iii)] 8% Savings (Taxable) Bonds, 2003 or 7.75% Savings (Taxable) Bonds, 2018 on Floating rate savings bonds (FRSB) 2020 (Taxable)
- 2) Int on unlisted / listed Deb to Ind/HUF - R if Int ≤ 10000 p.a by A/c payee chq
- 3) ~~DEMAT Listed Deb~~
- 4) On bonds of PFC / RFC - capital gains
- 5) Gold bonds 1977/1980 if amount invested ≤ 10000

Other than on Securities u/s Sec 393(1) SL. 5(ii) & 5(iii)
[Sec 194A ITA 1961]

@ 10% on { if Interest > 10000 p.a.
DO / Bank-FD > 50,000 p.a.
R - SC / VSC > 100,000 p.a.
per Bank or Branch

No TDS on the following

- 1) Paid to Bank
- 2) Paid by Bank on Savings A/c
- 3) Paid by PO on SB
- 4) Interest Paid by Firm to Partner [Sec 393(4) SL. 7(vii) ITA 2025 carve-out from SL. 5(iii)]
- 5) Paid by Income-tax dept. on Income-tax refund
- 6) Interest on motor vehicle claim ≤ 50000

Sec 393(1) Table 1 — Sl.1 to Sl.4: Commission · Rent · Property · CG

Sl.	Payment / Section	Payer	Threshold	Rate	Key Point / FA 2026
1(i) [194D]	Insurance agent commission [Sec 393(1) Sl.1(i)]	Insurer	> ₹20,000 p.a. p.p.	2%	w.e.f. 01.04.2025 reduced from 5% to 2%
1(ii) [194H]	Commission / brokerage (excl. insurance, Sec 1(i)) [Sec 393(1) Sl.1(ii)]	Not Ind/HUF below T limit; Ind/HUF if T > 1Cr or 50L	> ₹20,000 p.a.	2%	Disc. to sub-agents/dealers: No 194H if on principal basis Vodafone / Bharti Cellular: SIM discounts to distributors — NO 194H Prasar Bharati SC 2018: agency commission IS 194H Circular 05/2016: ad agency retention — NO 194H
2(i) [194IB]	Rent by Ind/HUF NOT otherwise liable (< T limit) to deduct TDS [Sec 393(1) Sl.2(i)]	Ind/HUF if T ≤ limits	> ₹50,000 per month or part	2%	Earlier 5% → now 2% Deposit in Form 141 (26QC) within 30 days from end of month of last payment in TY
2(ii) [194I]	Rent for Land/Building/Furniture [194I(a)] or Plant/Machinery/Equipment [194I(b)] [Sec 393(1) Sl.2(ii)]	Not Ind/HUF below T limit	> ₹2,40,000 p.a. (₹50,000/pm) p.p.	L/B/F: 10% P/M/E: 2%	Cold storage → 194C (not 194I) Airport charges → 194C [Circular 21/2017] CIT v. Senior Manager SBI [2012 All HC]: threshold applies per co-owner's share separately
3(i) [194IA]	Transfer of immovable property (not agri. land) [Sec 393(1) Sl.3(i)]	Any person (Ind/HUF — ALWAYS)	Consideration or Stamp Duty Value ≥ ₹50 lakh [FA 2026]	1%	FA 2026: SDV OR consideration ≥ ₹50L (was only consideration earlier) Club fees, parking, other amenities: included in 'consideration' [Sec 402(9)]
3(ii) [194IC]	JDA / Joint development agreement — any sum payable for land/building by promoter under JDA [Sec 393(1) Sl.3(ii)]	Promoter	Any amount (no minimum)	10%	Monetary consideration under JDA only — not stock-in-trade transfer
3(iii) [194LA]	Compulsory acquisition compensation — immovable property (not agri. land) [Sec 393(1) Sl.3(iii)]	Govt/Authority	> ₹5 lakh	10%	Exemption: RFCTLARR Act Sec 96 awards — exempt from TDS

Sec 393(1) Table 1 — Sl.5 to Sl.8: Interest · Works/Prof · Dividend · Special

Sl.	Payment / Section	Threshold	Rate	Key Note
5(i) [193]	Interest on securities (listed debentures, Govt. bonds) [Sec 393(1) Sl.5(i)]	> ₹10,000 p.a.	10%	Govt. securities mostly exempt 8% Savings Bonds/7.75% Bonds/FRSB 2020: TDS if > ₹10,000 Notif. 27&28/2018: applicable per IT Rules
5(ii)/(iii) [194A]	Bank/Co-op/PO interest [5(ii)] + Other interest [5(iii)] [Sec 393(1) Sl.5(ii)/(iii)]	Bank: > ₹1L (senior citizen) / > ₹50,000 (others) [FA 2026] Others: > ₹10,000 p.a.	10%	Chit dividend NOT interest — no 194A [CIT v. Avenue Super Chits 2015 Kar] MACT compensation interest — NO TDS if individual / ≤ ₹50,000 [FA 2026] UCO Bank [2014 Del]: FD in Registrar General's name — NO TDS [accepted via Cir 23/2015] Canara Bank SC [2018]: NOIDA = corporation u/s 193(4) → NO TDS
6(i) [194C]	Work contract payments [Sec 393(1) Sl.6(i)]	> ₹30K per contract OR > ₹1L p.a. p.p.	1% Ind/HUF 2% Others	'Work' includes: advertising / broadcasting / catering / product supply to spec / MANPOWER [FA 2026 Sec 402(47)(f)] Cold storage / Airport charges → 194C [Circulars] Cir. 9/2012: Gas transport → 194C
6(ii) [194M]	Commission/brokerage/professional fees/works contract paid by Ind/HUF NOT otherwise required to deduct TDS [Sec 393(1) Sl.6(ii)]	> ₹50 lakh p.a.	2%	Applicable where Ind/HUF turnover ≤ T-limit (so not liable u/s 6(i)/6(iii)/1(ii)) — safety net to ensure large payments by Ind/HUF don't escape TDS
6(iii) [194J]	Prof fees / FTS / Royalty / NCF / Director sitting fees [Sec 393(1) Sl.6(iii)]	Prof/FTS/Royalty: > ₹50,000 p.a. Director: NO minimum	FTS/Call Centre/Film Royalty: 2% Others: 10%	Manipal Health [2015 Kar]: Variable doctor remuneration → 194J (not 192) Notif. 21/2012: Certain software payments exempt from 194J Cir. 04/2016: Broadcaster to production house → 194J
7 [194]	Dividend [Sec 393(1) Sl.7]	> ₹10,000 p.a. p.p.	10%	Includes interim dividend Exempt if payee is Govt / exempt corporation / MF
8(i)	Insurance policy maturity proceeds			TDS on income component (not full maturity amount) — since income

TDS Sections — Key Payment Categories & Rate Summary

Sec 393(1) Sl. 6(i)
[Sec 194C ITA 1961]

payment for works contract made in excess of Rs 30,000 per contract
per person or Rs 1,00,000 is aggregate during the year

u/s Sec 393(4) Sl. 8(b)
[Sec 194C ITA 1961]

Ind/HUF
are not
required
to deduct TDS
on personal payments

